statements and "Liquidity and Capital Resources."

Historically, substantially all of our revenue has been generated from sales to customers in the United States. However, we have generated revenue in Canada and intend to enter additional international markets, which may require significant management attention and financial resources. International sales are subject to a variety of risks.

Our quarterly and annual operating results have varied significantly in the past. The variation in operating results will likely continue and may intensify. We believe that period to period comparisons of results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Our operating results may continue to fluctuate as a result of many factors, including the length of the sales cycles for new or existing customers, the size, timing or duration of significant customer contracts, fluctuations in number of subscriber records under management, timing or duration of service offerings, rate of adoption of wireless services by Public Safety Answering Points, efforts expended to accelerate the introduction of certain new products, our ability to hire, train and retain qualified personnel, increased competition, changes in operating expenses, changes in our strategy, the financial performance of our customers, changes in telecommunications legislation and regulations that may affect the competitive environment for our services, and general economic factors. Our contracts for 9-1-1 OSS services generally include a separate non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data, and therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

Our expense levels are based in significant part on our expectations regarding future revenue. Our revenue is difficult to forecast because the market for our services is evolving rapidly and the length of our sales cycle, the size and timing of significant customer contracts and license fees and the timing of recognition of non-recurring initial fees vary substantially among customers. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Any significant shortfall could therefore have a material adverse effect on our business, financial condition and results of operations. We will incur expenses of approximately $10 million in 2000 for research, development and marketing to expand our product offerings. In addition, we hired additional employees in 1999, 1998 and 1997, and expect to continue hiring additional employees during 2000. We also began leasing office space in Texas in December 1999, from which we will perform some of our operations. We cannot assure you that we can report operating profits or that our investments in research and development will generate future revenue. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Results of Operations

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Revenue

Total Revenue. Total revenue decreased 5%, from $34.4 million in 1998 to $32.6 million in 1999.

Data Management Services Revenue. Revenue from data management services increased 5%, from $30.6 million in 1998 to $32.1 million in 1999, representing approximately 89% and 99% of total revenue, respectively. Data management services revenue increased due to an increase in the number of records under management for ILEC and CLEC customers caused by customer growth and the signing of additional CLEC contracts. These increases were offset by monthly minimum fees from a wireless carrier in 1998 that expired at the end of 1998 and a decrease in non-recurring fees related to wireless and wireline services.

Licenses and Implementation Services. Revenue from licenses and implementation services decreased 87%, from $3.8 million in 1998 to $468,000 in 1999, as we had no licenses and implementation services contracts in process in 1999 other than warranty contracts.

Costs and Expenses

Cost of Data Management Services. Cost of data management services consists primarily of labor and costs of interconnection with customers' systems and our infrastructure. Cost of data management services increased 17%, from $20.7 million in 1998 to $24.3 million in 1999, representing 60% and 75% of total revenue, respectively, and 68% and 76% of data management services revenue, respectively. The dollar increase was due to the pilot phase and start of implementation of our contract with the State of Texas, increased depreciation expense and telephone lines to accommodate growth in our wireless and wireline operations, and additional headcount and related costs incurred to accommodate growth for both wireline and wireless services. The percentage increase occurred primarily because the rollout of our wireless and enhanced services has been slower than anticipated, although we have built the infrastructure to service the anticipated demand, and the infrastructure required to begin the State of Texas contract before significant revenue was generated. In addition, in 1998, we received monthly minimum fees from a wireless customer which expired at the end of 1998.

Cost of Licenses and Implementation Services. Cost of licenses and implementation services consists primarily of labor, license fees for third party software and related expenses. Cost of licenses and implementation services decreased 83%, from $836,000 in 1998 to $139,000 in 1999, representing 2% and 0.4% of total revenue, respectively, and 22% and 28% of licenses and implementation services revenue, respectively. The dollar decrease occurred because we had no licenses and implementation services contracts in process during 1999 other than warranty contracts.

Sales and Marketing. Sales and marketing expenses consist primarily of expenses related to salaries and commissions, travel, trade shows and sales collateral. Sales and marketing expenses increased 29%, from $4.1 million in 1998 to $5.3 million in 1999, representing 12% and 16% of total revenue, respectively. The dollar increase was due to the addition of marketing personnel, the creation of a government affairs department to interpret and influence legislation primarily related to our wireless operations and related legal expenses, addition of sales staff for enhanced services and an increase in tradeshow expenses.

General and Administrative. General and administrative expenses consist primarily of expenses related to our information systems, finance, human resources, legal, executive and financial planning departments. General and administrative expenses decreased 1%, from $5.0 million in 1998 to $4.9 million in 1999, representing 14% and 15% of total revenue, respectively. We experienced decreases due to a decrease in expenses related to the resignations of our chief operating officer and chief financial officer. These decreases were partially offset by:

- the addition of information technology personnel and related expenses;
- increased legal and accounting costs related to quarterly and annual reporting requirements as we became a publicly traded company in June 1998;
- increased legal staffing and other fees related to regulatory and legislative issues concerning the implementation of our services in Texas; and
- the creation of an investor relations department.

Other Income (Expense), Net. Net other income (expense) consists primarily of interest expense from our borrowings and leases for capital equipment, offset by interest income earned on our cash and investment balances. Net other expense was $294,000 in 1998 compared to net other income of $607,000 in 1999, representing (1)% and 2% of total revenue for such periods, respectively. The dollar increase in net other income was primarily due to a decrease in interest expense related to the repayment of certain bank debt outstanding through the second quarter of 1998 and repayment of certain capital leases and an increase in interest earned from the investment of funds received from our initial public offering in June and July of 1998.

Benefit for Income Taxes. Our income tax benefit from continuing operations increased from $379,000 in 1998 to $468,000 in 1999. In 1998, we reversed a portion of our valuation allowance and in 1999 recorded an income tax benefit related to our deferred tax assets as we believe that it is more likely than not that the tax assets will be realized.

Loss from Operations of Discontinued Division. We recorded a charge of $226,000 in 1999, net of the related tax benefit, related to the final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

Loss from Early Extinguishment of Debt. We recorded a charge of $909,000 in 1998, net of the related tax benefit, related to the write-off of the remaining debt discount and other costs associated with the early extinguishment of our bank debt.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenue

Total Revenue. Total revenue increased 27%, from $27.1 million in 1997 to $34.4 million in 1998.

Data Management Services Revenue. Revenue from data management services increased 28%, from $24.0 million in 1997 to $30.6 million in 1998, representing approximately 89% of total revenue in both periods. The increase resulted primarily from increases in:

- monthly fees from wireline customers due to an increase in the number of subscribers under management;
- non-recurring and monthly fees from wireless customers, as we did not begin to earn revenue from wireless customers until the third quarter of 1997 and signed several new contracts in 1998;
- non-recurring fees from enhanced services; and
- non-recurring fees from new wireline customers that were transitioned to our systems.

Licenses and Implementation Services. Revenue from licenses and implementation services increased 25%, from $3.1 million in 1997 to $3.8 million in 1998, due to increased work performed on contracts that began in 1997 and were completed or terminated during 1998.

Costs and Expenses

Cost of Data Management Services. Cost of data management services increased 35%, from $15.4 million in 1997 to $20.7 million in 1998, representing 57% and 60% of total revenue, respectively, and 64% and 68% of data management services revenue, respectively. The dollar increase was due to the addition of personnel and equipment and expansion of facilities to accommodate growth in our wireless and wireline operations.

Cost of Licenses and Implementation Services. Cost of licenses and implementation services decreased 35%, from $1.3 million in 1997 to $836,000 in 1998, representing 5% and 2% of total revenue, respectively, and 42% and 22% of licenses and implementation services revenue, respectively. The decrease in dollars and as a percent of licenses and implementation services revenue was primarily due to the reversal of accrued third party software fees that will not be required and an increase in warranty revenue, both of which resulted from the cancellation of our contract with Bell Atlantic.

Sales and Marketing. Sales and marketing expenses increased 7%, from $3.9 million in 1997 to $4.1 million in 1998, representing 14% and 12% of total revenue, respectively. The increase was primarily due to salaries and related costs of hiring additional sales and marketing personnel during 1998 and public relations costs incurred in 1998. These increases were partially offset by decreases in sales commissions, as well as the transfer of a vice president to a general and administrative position.

General and Administrative. General and administrative expenses increased 54%, from $3.2 million in 1997 to $5.0 million in 1998, representing 12% and 14% of total revenue, respectively. The dollar increase was due to:

- the reassignment of certain continuing resources, infrastructure and related general and administrative expenses applicable to continuing operations;
- addition of personnel and computer equipment in the accounting, information systems, legal and human resources departments to support our growth;
- the transfer of a marketing vice president to a general and administrative position; and
- strategic consulting costs incurred in 1998.

The increases were partially offset by a decrease in executive bonuses.

Other Expenses, Net. Other expenses decreased 67%, from $879,000 in 1997 to $294,000 in 1998, representing 3% and 1% of total revenue, respectively. The dollar decrease was primarily due to the repayment of certain bank debt and capital leases during 1998 and interest earned from the investment of funds from our initial public offering in June and July of 1998.

Income Tax Benefit. The income tax benefit of $379,000 in 1998 consists of the reversal of a portion of our valuation allowance on our deferred tax assets, compared to a reversal of valuation allowance of $2.4 million in 1997. We did not record a state income tax provision in 1998 primarily due to the utilization of state net operating loss carry forwards. In 1997, we recorded a state provision of $172,000 as more business was conducted in states where net operating loss carryforwards were not available.

Loss from Sale and Operations of Discontinued Division. In 1997, we recorded a charge of $2.9 million, net of the related tax effect, related to the sale of the net assets of our Premise Products Division.

Loss from Early Extinguishment of Debt. We recorded a charge of $909,000 in 1998, net of the related tax benefit, related to the write-off of the remaining debt discount and other costs associated with the early extinguishment of our bank debt.

Liquidity and Capital Resources

Since our inception we have funded our operations with cash provided by operations, supplemented by equity and debt financing and leases on capital equipment. As of December 31, 1999, we had $21.5 million in cash and cash equivalents and investments in marketable securities.

In June 1998, we completed an initial public offering of 2,100,000 shares of our common stock, which generated proceeds of $22.5 million to us, net of the underwriter's discount and other offering costs. We used approximately $4.4 million of the proceeds to repay our bank loans and $160,000 for the related prepayment penalty. In July 1998, the underwriters of our initial public offering exercised their over-allotment option. Under the over-allotment option, we sold an additional 315,000 shares of our common stock, generating net proceeds of $3.5 million.

In addition to the $4.4 million of debt repaid with the proceeds of the initial public offering, we repaid $5.6 million and $1.9 million of other bank debt and capital lease obligations during 1998 and 1999, respectively. Additionally, we used $3.4 million and $2.5 million during 1998 and 1999, respectively, for the purchase of capital assets and software development. We anticipate that our level of spending for capital expenditures in 1999 will continue during 2000, although we currently have no material commitments for capital expenditures.

We have a line of credit with a bank equal to $2.0 million, which is available to meet operating needs. The interest rate on amounts borrowed under the line of credit is equal to the bank's prime rate or the one, two or three month Libor rate plus 2.25% per annum. The line of credit matures April 15, 2000 and is collateralized by certain of our assets. As of December 31, 1999, no borrowings were outstanding on the line of credit.

We also have a $2.0 million capital lease line with a bank which is available to meet capital acquisition needs that arise from normal business operations. The interest rate on capital leased under the lease line is equal to the bank's cost of funds at the time of each lease. Separate lease schedules are signed from time to time. Each lease schedule is collateralized by the assets that are being leased. Each lease has its own termination date, typically 36 months. As of December 31, 1999, $582,000 was outstanding on the capital lease line.

We have announced plans to incur research, development and marketing expenses of approximately $10 million to expand our product offerings. This will require approximately $13 million in cash due to the capital expenditure requirements. We may also increase our capital lease line to finance this initiative. We believe that our remaining net proceeds from our initial public offering, cash generated from operations and lease financing will be sufficient to fund our anticipated working capital needs, research and development initiative, capital expenditures and any potential future acquisitions through at least the next twelve months. In the event our plans or assumptions change or prove to be inaccurate, or if we consummate any unplanned acquisitions of businesses or assets, we may be required to seek additional sources of capital. Sources of additional capital may include public and private equity and debt financings, sales of nonstrategic assets and other financing arrangements.

Year 2000 Capability

Many currently installed computer and software products were coded to accept only two digit entries in the date code field. These date code fields need to accept four digit entries to distinguish twenty-first century dates from twentieth century dates. We use off-the-shelf and custom software developed internally and by third parties for our production, information technology (IT) and non-IT systems. We programmed and tested our systems and installed all upgrades necessary to make them Year 2000 compliant. We spent about $400,000 to make our systems Year 2000 compliant. As a result of our Year 2000 readiness efforts, our production systems, IT systems and non-IT systems successfully distinguished twenty-first century dates from twentieth century dates on January 1, 2000 without any system failures. However, we are continuing to monitor our systems throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly. Despite the fact that many companies' software and computer systems are currently processing twenty-first century dates correctly, these companies, including us, could experience latent Year 2000 problems.

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. We do not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect our financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2, "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted; however, retroactive application is prohibited. We believe SOP 98-9 will not materially impact our financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition." SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. We are currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on our financial position and results of operations.

Balance Sheets *(dollars in thousands)*

	December 31, 1999	1998
Assets		
[illegible]	[illegible]	[illegible]
Liabilities and Stockholders' Equity		
[illegible]	[illegible]	[illegible]

Statements of Operations

Statements of Operations *(dollars in thousands, except per share data)*

	Year Ended December 31, 1999	1998	1997
Revenue:			
Data management services	$ 32,096	[illegible]	[illegible]
Licenses and implementation services	488	[illegible]	[illegible]
Total revenue	32,584	24,440	[illegible]
Cost and expenses:			
Cost of data management services	24,338	[illegible]	[illegible]
Cost of licenses and implementation	138	[illegible]	[illegible]
Sales and marketing	5,314	[illegible]	[illegible]
General and administrative	4,931	[illegible]	[illegible]
Total costs and expenses	34,721	[illegible]	[illegible]
Income (loss) from operations	(2,137)	[illegible]	[illegible]
[illegible]			
Interest and other income	1,095	[illegible]	[illegible]
Interest and other expense	(488)	[illegible]	[illegible]
Income (loss) from continuing operations [illegible]	(1,530)	[illegible]	[illegible]
Benefit for income taxes [illegible]	(468)	[illegible]	[illegible]
Net income (loss) from continuing operations [illegible]	(1,062)	[illegible]	[illegible]
Discontinued operations [illegible]			
Loss from operations of discontinued [illegible]	(226)	[illegible]	[illegible]
[illegible]			
Net income (loss) [illegible]	(1,288)	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
Net income (loss)	$ (1,288)	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
Net income (loss) available to common stock [illegible]	$ (1,288)	[illegible]	[illegible]
[illegible]			
[illegible]	$ (0.10)	[illegible]	[illegible]
[illegible]	$ (0.10)	[illegible]	[illegible]
[illegible]	$ (0.12)	[illegible]	[illegible]
[illegible]	$ (0.12)	[illegible]	[illegible]
[illegible]	$ (0.12)	[illegible]	[illegible]
[illegible]	$ (0.12)	[illegible]	[illegible]
[illegible]	10,980,001	[illegible]	[illegible]
[illegible]	10,869,001	[illegible]	[illegible]

Statements of Stockholders' Equity (Deficit)

Statements of Stockholders' Equity (Deficit) *(dollars in thousands, except per share data)*

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Subscriptions Receivable	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Total Stockholders' Equity (Deficit)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Statements of Cash Flows

Statements of Cash Flows (dollars in thousands)	Year Ended December 31, 1999	1998	1997
[illegible]			
[illegible]	$ (1,288)	[illegible]	[illegible]
[illegible]	3,117	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
[illegible]	(284)	[illegible]	[illegible]
[illegible]	53	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
[illegible]	8	[illegible]	[illegible]
[illegible]	(547)	[illegible]	[illegible]
[illegible]	2,557	[illegible]	[illegible]
[illegible]	189	[illegible]	[illegible]
[illegible]	(38)	[illegible]	[illegible]
[illegible]	(29)	[illegible]	[illegible]
[illegible]	(433)	[illegible]	[illegible]
[illegible]	(1,043)	[illegible]	[illegible]
[illegible]	4,262	[illegible]	[illegible]
[illegible]	(1,961)	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
[illegible]	(14,559)	[illegible]	[illegible]
[illegible]	11,500	[illegible]	[illegible]
[illegible]	(497)	[illegible]	[illegible]
[illegible]	(5,517)	[illegible]	[illegible]
[illegible]	(1,870)	[illegible]	[illegible]
[illegible]	581	[illegible]	[illegible]
[illegible]	401	[illegible]	[illegible]
[illegible]	26	[illegible]	[illegible]
[illegible]	145	[illegible]	[illegible]
[illegible]	(657)	[illegible]	[illegible]
[illegible]	(3,912)	[illegible]	[illegible]
[illegible]	10,266	[illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]	[illegible]
[illegible]	$ 439	[illegible]	[illegible]
[illegible]	$ 450	[illegible]	[illegible]
[illegible]	$ —	[illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]	[illegible]
[illegible]	$ —	[illegible]	[illegible]
[illegible]	$ —	[illegible]	[illegible]

Notes to Financial Statements

Notes to Financial Statements

(1) Organization, Business and Liquidity

SCC Communications Corp. (the "Company") is a Delaware corporation. The Company is the leading provider of 9-1-1 operations support systems services to incumbent local exchange carriers ("ILECs"), competitive local exchange carriers ("CLECs"), wireless carriers and state and local governments in the United States. The Company manages the data which enables 9-1-1 calls to be routed to the appropriate public safety agency with accurate and timely information about the caller's identification and location. In addition, the Company licenses its 9-1-1 software to carriers that wish to manage the delivery of 9-1-1 data management services in-house.

(2) Summary of Significant Accounting Policies

Operating Cycle

Assets and liabilities related to contracts are included in current assets and liabilities in the accompanying balance sheets since they will be liquidated in the normal course of contract completion, although this may require more than one year.

Property and Equipment

Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of three to five years for computer hardware and equipment, seven years for furniture and fixtures and the life of the lease for leasehold improvements. The costs of repairs and maintenance are expensed while enhancements to existing assets are capitalized. Depreciation expense totaled approximately $4,888,000, $4,174,000 and $3,399,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Software Development Costs

The Company expenses the costs of developing computer software until technological feasibility is established and capitalizes all costs incurred from that time until the software is available for general customer release. Technological feasibility for the Company's computer software products is based upon the earlier of the achievement of (a) a detailed program design free of high-risk development issues or (b) completion of a working model. Costs of major enhancements to existing products with a wide market are capitalized while routine maintenance of existing products is charged to expense as incurred. The establishment of technological feasibility and the ongoing assessment of the recoverability of capitalized computer software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product compares to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product which is typically five years. Amortization expense related to capitalized software costs totaled approximately $229,000, $145,000 and $107,000 for the years ended December 31, 1999, 1998 and 1997, respectively, and is included in cost of data management services and licenses and implementation services in the statements of operations.

Revenue Recognition

The Company reports revenue based on its two segments, data management services and licenses and implementation services.

Revenue from data management services generally consists of a non-recurring fee and monthly recurring revenue. Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to the Company's systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. The Company's contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed.

Revenue related to software license fees and implementation of the Company's 9-1-1 systems at customer sites is recognized using the percentage-of-completion method because the Company's software requires significant modification for each customer. Such contracts include a license fee for the use of the Company's software and service fees for the installation and customization of the system. The Company's costs to install its systems include direct labor, third-party license fees and miscellaneous expenses. Such costs are included in cost of licenses and implementation services.

In applying the percentage-of-completion method, revenue and related costs are recognized based on the percentage that labor hours incurred to date compared to total estimated labor hours. Revenue recognized in excess of amounts billed is reflected as unbilled revenue and amounts billed in excess of revenue recognized are reflected as deferred contract revenue in the accompanying balance sheets. The Company recognizes any known or anticipated loss on contracts in process when such losses are determined to exist.

Revenue from licenses and implementation services includes customer support revenue which is recognized ratably over the related contract period on a straight-line basis. Costs related to customer support revenue are included in cost of licenses and implementation services in the accompanying statements of operations.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in high-grade treasury bonds and commercial paper. The Company maintains its cash balances in the form of bank demand deposits, money market accounts, treasury bonds and commercial paper with original maturities less than ninety days. The Company's deposits and investments are with financial institutions that management believes are creditworthy and investments are high-grade. The Company's accounts receivable are from customers that are generally telecommunications service providers; accordingly, the Company's accounts receivable are concentrated in the telecommunications industry. The Company's principal customers (Note 10) accounted for 71% and 30% of the Company's accounts receivable as of December 31, 1999 and 1998, respectively. The Company has no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

Research and Development

Research and development efforts consist of salaries, supplies and other related costs. These costs are expensed as incurred and totaled approximately $1,740,000, $1,376,000 and $738,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These costs are included in cost of data management services and licenses and implementation services in the accompanying statements of operations and do not include development costs incurred as part of the efforts performed under licenses and implementation services contracts with the Company's customers.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include highly liquid investments with original maturities of 90 days or less.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Market Value of Financial Instruments

Financial instruments include cash and cash equivalents, corporate debt securities, accounts receivable and debt obligations. The carrying amounts for cash and cash equivalents and accounts receivable approximate fair market value because of the short maturity of these instruments. The fair value of notes are estimated based on current rates available for debt with similar maturities and securities, and at December 31, 1999 and 1998, approximates the carrying value.

Investments in Marketable Securities

The Company's investments in corporate debt securities are classified as held-to-maturity and are carried at the amortized cost basis. The investments had the following values at December 31, 1999 and 1998, respectively:

	Amortized/ Accreted Cost	Accrued Interest	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Debt Securities [illegible]					
due after one year through five years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Balance at December 31, 1998	$10,315,000	$178,000	$16,000	$(12,000)	$10,338,000
Corporate Debt Securities [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Debt Securities [illegible]					
due after one year through five years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Balance at December 31, 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109 ("SFAS 109"), which requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax basis of assets and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, on a more likely than not basis, are not expected to be realized (Note 6).

Stock Based Compensation Plans

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB Opinion No. 25") in accounting for its stock option and other stock-based compensation plans for employees and directors. The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," for such options and stock-based plans for employees and directors (Note 4).

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. Impairment losses are recorded for the excess, if any, of the carrying value over the fair value of the long-lived assets.

Earnings Per Share

The Company presents basic and diluted earnings or loss per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS 128"), which establishes standards for computing and presenting basic and diluted earnings per share. Under this statement, basic income (loss) per share is determined by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive (i.e., a loss per share is never reduced). The treasury stock method, using the average price of the Company's common stock for the period, is applied to determine dilution from options and warrants. The if-converted method is used for convertible securities. Potentially dilutive common stock options that were excluded from the calculation of diluted income per share because their effect is antidilutive totaled 1,085,747, 51,000 and 298,017 in 1999, 1998 and 1997, respectively.

A reconciliation of the numerators and denominators used in computing per share net income from continuing operations is as follows:

	Year Ended December 31, 1999	1998	1997
Numerator:			
Net income (loss) from continuing operations before extraordinary item (numerator for diluted income per share)	$(1,062,000)	$3,880,000	$7,763,000
Dividends on Convertible Preferred Stock	—	(355,000)	(740,000)
Common stock warrant put price adjustment	—	(77,000)	(8,000)
Numerator for basic income (loss) per share from continuing operations before extraordinary item	$(1,062,000)	$3,448,000	$7,015,000
Denominator for basic income (loss) per share:			
Weighted average common shares outstanding	10,989,091	6,433,504	1,857,413
Denominator for diluted income (loss) per share:			
Convertible Preferred Stock	—	3,051,900	6,188,575
Weighted average common shares outstanding	10,989,091	6,433,504	1,857,413
Options issued to employees	—	732,861	720,005
Puttable common stock warrant	—	96,229	22,225
Denominator for diluted income (loss) per share	10,989,091	10,314,558	8,788,218

Income (loss) per common share was computed as follows:

	1999	1998	1997
Basic income (loss) per share:			
Income (loss) per share from continuing operations before extraordinary item	$(0.10)	$0.53	$2.17
Loss per share from discontinued operations	(0.02)	—	(1.50)
Loss per share from extraordinary item	—	(0.14)	—
Basic income (loss) per share	$(0.12)	$0.39	$0.67
Diluted income (loss) per share:			
Income (loss) per share from continuing operations	$(0.10)	$0.34	$0.81
Loss per share from discontinued operations	(0.02)	—	(0.50)
Loss per share from extraordinary item	—	(0.09)	—
Diluted income (loss) per share	$(0.12)	$0.25	$0.31

Notes to Financial Statements

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133" ("SFAS No. 137"). SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. The Company does not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect its financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9 ("SOP 98-9"), "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4 ("SOP 98-4"), "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted; however, retroactive application is prohibited. The Company believes SOP 98-9 will not materially impact its financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB 101"). SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. The Company is currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on its financial position and results of operations.

(3) Discontinued Operations

On June 30, 1997, the Company sold the net assets of its Premise Products Division. The sale resulted in a net loss of $2,032,000. The net losses of this division are included in the statements of operations as loss from operations of discontinued division. Revenue from the division for the six months ended June 30, 1997 was $5,785,000. Net losses from operations of this division totaled $226,000 and $876,000 in 1999 and 1997, respectively, and are presented in the Company's financial statements as loss from operations of discontinued division. The loss from discontinued operations in 1999 resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

(4) Stockholders' Equity (Deficit)

Common Stock and Preferred Stock

In March 1998, the Company's Board of Directors authorized an increase in common stock to 30,000,000 shares and authorized 15,000,000 shares of undesignated preferred stock. In 1998 the Company also retired 36,250 shares of treasury stock.

Mandatorily Redeemable Convertible Preferred Stock

In connection with the Company's initial public offering in June 1998, the Company's mandatorily redeemable convertible preferred stock was converted on a one-for-one basis to common stock. Activity for 1997, 1998 and 1999 is as follows:

Shares Issued and Outstanding

	Series A	Series B	Series C	Series D	Series E	Series F	Total
BALANCES, December 31, 1996	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BALANCES, December 31, 1998 and 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The activity related to the liquidation or redemption value of Series A through Series F Convertible Preferred Stock for the periods ended December 31, 1997, 1998 and 1999 is as follows:

Liquidation or Redemption Value

	Series A	Series B	Series C	Series D	Series E	Series F	Total
BALANCES, December 31, 1996	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends accrued on Series D, E and F Convertible Preferred Stock	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BALANCES, December 31, 1997	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends accrued on Series D, E and F Convertible Preferred Stock	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conversion of Series A-F Convertible Preferred Stock to Common Stock	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BALANCES, December 31, 1998 and 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Putable Common Stock Warrant

In November 1997, the Company borrowed $4,000,000 from Banc One Capital Partners II, LLC (the "Lender") (Note 5). In connection with the loan, the Lender received a warrant to purchase 195,148 shares of the Company's common stock for $100. In June 1998, the Lender exercised this warrant. Because of the put feature of the warrant, the Company recorded an amount equal to the number of shares under the warrant times the difference between the current market value, as defined, and the market value of the shares at the time the warrant was issued. This amount was recorded as an increase in the value of the putable common stock warrant and charged to accumulated deficit in the accompanying financial statements through the time that the warrant was exercised. The amount recorded was $77,000 and $8,000 in 1998 and 1997, respectively.

Stock Subscriptions Receivable

In September 1997, in connection with the sale of the Company's Premise Products Division, several former employees of the Company signed full recourse promissory notes to the Company to exercise their vested stock options. The notes accrue interest at 6.07% per annum. The Company extended the due date on the notes to March 20, 1999 and is pursuing collection of the note that remains unpaid.

Stock Option Plan

The Company adopted the 1998 Stock Incentive Plan ("1998 Plan") effective June 23, 1998, which is a successor to the Company's 1990 Option Plan. As of December 31, 1999, a total of 3,257,647 shares have been authorized for issuance under the 1998 Plan, including shares authorized under the 1990 Option Plan. The shares reserved for issuance will increase automatically on the first trading day of each calendar year, beginning with the 1999 calendar year, by 3% of the number of shares of common stock outstanding on the first trading day of the immediately preceding calendar year. The share reserve was increased by 326,590 shares under this provision in 1999. The 1998 Plan allows for issuance of options to officers, non-employee Board members and consultants, as provided for under the terms of the 1998 Plan.

Employee Stock Purchase Plan

On March 18, 1998, the Company adopted an employee stock purchase plan ("ESPP") under which eligible employees may contribute up to 10% of their salaries through payroll deductions to purchase shares of the Company's common stock. The first offering period of the ESPP began March 1, 1998 and ended on December 31, 1998. Thereafter, offering periods will be successive six month periods. At the end of each offering period, amounts contributed by employees will be used to purchase shares of the Company's common stock at a price equal to 85% of the lower of the closing price of the common stock on the first day or last day of the offering period. The Company's Board of Directors has authorized the issuance of up to 200,000 shares under the ESPP and may terminate the ESPP at any time. At March 1 of each year, the shares available under the ESPP will be restored to 200,000, although the Company's Board of Directors may elect to restore a lesser number of shares. The Company issued 38,679 and 61,105 shares under the ESPP in 1999 and 1998, respectively.

Statement of Financial Accounting Standards No. 123 ("SFAS 123")
SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, provided that pro forma disclosures are made of net income or loss assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted under the 1998 Plan, which succeeds the 1990 Option Plan, during 1999, 1998 and 1997, using the Black-Scholes pricing model and the following weighted average assumptions:

	1999	1998	1997
[illegible]	[illegible]	[illegible]	[illegible]

To estimate lives of options for this valuation, it was assumed options will be exercised upon becoming fully vested. All options are initially assumed to vest. Cumulative compensation costs recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Because the Company's common stock was not yet publicly traded, the expected market volatility was assumed to be zero in 1997. In 1998 and 1999, the Company's common stock was not yet traded for an extended period of time, thus the expected market volatility was based on the stock prices of companies whose operations are similar to the Company's.

Actual volatility of the Company's common stock may vary. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted under the 1998 Option Plan and the ESPP was computed to be approximately $2,630,000, $1,406,000 and $499,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts are amortized ratably over the vesting periods of the options or recognized at date of grant if no vesting period is required. Pro forma stock based compensation, net of the effect of forfeitures, was $496,000, $417,000 and $232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the years then ended are presented below:

	1999		1998		1997	
	[illegible]	[illegible]	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
[illegible]	1,339,880	$ 3.02	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	740,364	5.13	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(179,079)	2.56	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(245,301)	3.43	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	1,655,864	$ 4.13	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	$ 3.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The following table summarizes information about the options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/99	Weighted Average Exercise Price
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from continuing operations would have been reported as follows:

	1999	1998	1997
[illegible]			
As reported	$ (1,062,000)	[illegible]	[illegible]
Pro forma	$ (1,373,000)	[illegible]	[illegible]
[illegible]			
As reported	$ (0.10)	[illegible]	[illegible]
Pro forma	$ (0.12)	[illegible]	[illegible]
[illegible]			
As reported	$ (0.10)	[illegible]	[illegible]
Pro forma	$ (0.12)	[illegible]	[illegible]

(5) Long-term debt
At December 31, 1999 and 1998, long-term debt consisted of the following:

	December 31, 1999	December 31, 1998
[illegible]	$ 4,009,000	[illegible]
[illegible]	(1,071,000)	[illegible]
[illegible]	$ 2,938,000	[illegible]

The Company prepaid its $4,000,000 note payable to Banc One Capital Partners II, LLC on June 30, 1998 and incurred a prepayment premium equal to 4% of the amount, totaling $160,000. In addition, the Company wrote-off the remaining debt discount related to the note payable of $1,282,000. The prepayment penalty and write-off of the debt discount totaling $1,442,000 were recorded as an extraordinary item, net of the related income tax benefit of $533,000.

Debt maturities of long-term debt as of December 31, 1998, are as follows:

	Capital Leases
[illegible]	[illegible]

(6) Income Taxes
The Company has operated in three countries, the United States, Canada and Australia. For income tax return reporting purposes, the Company has approximately $11,200,000 of net operating loss carryforwards and approximately $723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax liabilities in the United States. The research and development credit and net operating loss carryforwards expire at various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may limit the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain events including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss carryforwards from tax periods prior to the ownership change.

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

	December 31, 1999	1998
Current		
[illegible]	$ [illegible]	[illegible]
[illegible]	70,000	[illegible]
[illegible]		[illegible]
Less: [illegible]	(87,000)	[illegible]
[illegible]	[illegible]	[illegible]
Noncurrent		
[illegible]	(1,057,000)	[illegible]
[illegible]	4,150,000	[illegible]
[illegible]	723,000	[illegible]
[illegible]	(393,000)	[illegible]
[illegible]	3,423,000	[illegible]
[illegible]	$ [illegible]	[illegible]

The Company recorded an income tax benefit of $568,000 in 1999 as it believes that it is more likely than not that the net operating loss generated will be utilized against future earnings. As of December 31, 1998, the Company reversed $1,689,000 of the valuation allowance on part of its deferred tax assets, as the Company believes it is more likely than not that such tax benefits will be realized. Approximately $533,000 of the income tax benefit in 1998 was allocated to the extraordinary loss on early extinguishment of debt.

Management believes the remaining tax assets of $450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for such net tax assets.

	December 31, 1999	1998	1997
[illegible]			
[illegible]	$ —	[illegible]	[illegible]
[illegible]	(468,000)	[illegible]	[illegible]
[illegible]	$ (468,000)	[illegible]	[illegible]
[illegible]			
[illegible]	$ —	[illegible]	[illegible]
[illegible]	$ (100,000)	[illegible]	[illegible]
[illegible]			
[illegible]	$ (651,000)	[illegible]	[illegible]
[illegible]	124,000	[illegible]	[illegible]
[illegible]	(81,000)	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
[illegible]	$ (568,000)	[illegible]	[illegible]
[illegible]			
[illegible]	$ (468,000)	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
[illegible]	(468,000)	[illegible]	[illegible]
[illegible]	(100,000)	[illegible]	[illegible]
[illegible]	—	[illegible]	[illegible]
[illegible]	(100,000)	[illegible]	[illegible]
[illegible]	$ (568,000)	[illegible]	[illegible]

(7) Commitments

The Company leases its office and research facilities and certain equipment under operating lease agreements which expire through November 2003. Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $1,370,000, $1,030,000 and $718,000, respectively. Future minimum lease obligations under these agreements are as follows:

2000	$ [illegible]
2001	[illegible]
2002	[illegible]
2003	30,000
Total	$ 4,721,000

(8) Employee Benefit Plan

The Company has a 401(k) plan under which eligible employees may defer up to 15% of their compensation. The Company may make matching contributions and discretionary contributions if approved by the Board of Directors. For 1998 and 1997, no employer matching or discretionary contributions were made to the 401(k) plan. However, in February 1999, the Company's Board of Directors approved a matching contribution for employees, which was effective April 1, 1999. The Company matches 50% of employee contributions up to 6% of the employee's salary, not to exceed $1,000 in 1999 and 2000, respectively. Matching contributions will vest 35%, 70% and 100% for one, two and three years of service, respectively.

(9) Related Party Transaction

The Company provides data management and certain consulting services to and leases equipment from entities in which a stockholder of the Company has an ownership interest. A representative of the stockholder was a member of the Company's Board of Directors until December 2, 1999. The Company received net proceeds of approximately $6,979,000, $6,735,000 and $6,959,000 in 1999, 1998 and 1997, respectively, pursuant to these agreements. Amounts due to the stockholder under the capital lease agreements net of amounts due to the Company for services rendered as of December 31, 1999 and 1998 were $3,262,000 and $3,962,000, respectively. The leases have interest rates ranging from 7.75% to 9.50%, require monthly payments and have expiration dates varying through October 2002.

(10) Reportable Segments and Major Customers

Reportable Segments

The Company has two reportable segments, data management services and licenses and implementation services. The Company measures its reportable segments based on revenue for each segment and costs directly related to each segment. General and administrative, sales and marketing and other costs are not measured by segment. Data management services include the provisioning of an outsourcing solution for 9-1-1 data management to customers, including ILECs, CLECs, wireless carriers and state and local governments. Licenses and implementation services include the licensing, customization and installation of the Company's 9-1-1 software solutions. Substantially all of the Company's customers are in the United States.

These segments are managed separately because the nature of and resources used for each segment is unique. Data management services include ongoing data management and monitoring of systems and other enhanced services. Under data management services, the customer's data is transferred to the Company's systems and the Company owns the systems used to manage the data. Under licenses and implementation services, the customer performs data management and systems monitoring activities. The customer also owns the hardware, licenses the Company's software and maintains the data on its internal systems under this segment.

Revenue and costs are segregated in the Statement of Operations for the two reportable segments. The Company does not segregate assets between the segments as it is impractical to do so.

Major Customers

Revenue from certain customers exceeded 10% of total revenue for the respective year as follows: 27%, 27% and 26% in 1999; 27%, 25% and 21% in 1998 and 30%, 29% and 22% in 1997. Contracts with certain of these customers have a ten-year duration and provide for fixed monthly fees based upon the number of subscriber records managed and upon the services selected by the customer. All of these customers are in the Company's data management services segment.

(11) Legal Matters

The Company is subject to various claims and business disputes in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management anticipates that the ultimate outcome of the issues will not have a material impact on the financial statements. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. The Company plans to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. The Company believes that the services it provides are within the scope of the existing regulations and that any challenges to the regulations will be decided in the Company's favor. However, if the regulations are challenged and are not decided in the Company's favor, the Company may be prohibited from expanding its services to certain markets.

Report of Independent Public Accountants

To the Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance sheets of SCC Communications Corp. (a Delaware corporation) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Denver, Colorado
January 21, 2000

Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National Market under the symbol "SCCX." We commenced our initial public offering of the common stock on June 24, 1998 at a price of $12 per share. Prior to such date, there was no public market for the common stock. The following table sets forth the high and low bid prices for the common stock for the periods indicated, as reported on the Nasdaq National Market.

	HIGH	LOW
[illegible]	[illegible]	[illegible]

As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. Certain covenants contained in our line of credit agreement restrict the payment of dividends without the lender's prior consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, subject to the restrictions discussed above, after taking into account various factors, including our financial condition, operating results, cash needs and expansion plans.

Corporate Information

[illegible]

George K. Heinrichs
President and Chief Executive Officer
SCC Communications Corp.

Stephen D. James
Independent Executive Business Consultant

David Kronfeld
Manager
JK&B Management L.L.C.

Mary Beth Vitale
President and Chief Operating Officer
Westwind Media

Winston J. Wade
Former Chief Executive Officer
MediaOne Multimedia

Darrell A. Williams
Chief Investment Officer
Telecommunications Development Fund

[illegible]

George K. Heinrichs
President and Chief Executive Officer

Carol L. Nelson
Chief Financial Officer

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For further information on SCC, additional copies of this report or other financial information filed with the Securities and Exchange Commission, please contact:

[illegible]
SCC Communications Corp.
6285 Lookout Road
Boulder, CO 80301-3343
Tel: 303.581.5600
Fax: 303.581.0900
Email: [illegible]

SCC Communications Corp.'s common stock trades on the Nasdaq Stock Market® under the symbol SCCX.

Footnotes

1. National Emergency Number Association
2. SCC Communications Corp.
3. Strategis Group as quoted in *1999 Phone Facts*, United States Telecom Association
4. Cellular Telephone Institute Association
5. Cellular Telephone Institute Association
6. Strategis Group

SCC News

NEWS RELEASE

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WINfirst Selects SCC Communications to Provide 9-1-1 Service to Customers

FOR IMMEDIATE RELEASE

Boulder, Colo. (December 7, 2000)--SCC Communications (Nasdaq: SCCX), the world's leading provider of 9-1-1 data management services, announced today that WINfirst has selected SCC's TelConnectSM package to provide enhanced 9-1-1 (E9-1-1) service to WINfirst residential customers. The TelConnect system will allow WINfirst customers access to immediate and reliable 9-1-1 service.

Based in Denver, WINfirst is building an entirely new fiber-to-the-home (FTTH) residential network that will provide high bandwidth for voice, video and data applications. WINfirst has already received regulatory approval to build networks in Sacramento and San Diego, California; Austin, Dallas, Houston and San Antonio, Texas; and has received a temporary permit pending full approval in Portland, Oregon. Combined, WINfirst will provide its service to more than 3.2 million homes. WINfirst is pursuing regulatory approval in San Francisco, Oakland, California, Los Angeles, Seattle, Phoenix and Nevada.

WINfirst, which signed a three-year contract with SCC, will now benefit from the leading-edge TelConnect suite of 9-1-1 data management services. TelConnect enables integrated communications providers (ICPs) and competitive local exchange carriers (CLECs) to cost-effectively outsource the complex job of meeting 9-1-1 data management requirements.

"WINfirst is committed to providing its customers with the highest quality service-and that includes 9-1-1 emergency service. This is an essential service and we wanted to work with the country's leading and most experienced provider of 9-1-1 data management services," said Frank Casazza, WINfirst president and chief operating officer. "We realize the critical importance of 9-1-1 service. It can be a matter of life and death-which is why we selected SCC to provide our customers with the most accurate and reliable access to 9-1-1 emergency service available."

"TelConnect will handle all of WINfirst's data validation and formatting, error analysis and resolution and delivery of the data to the appropriate public safety agencies," said Mark Scott, vice president and general manager of SCC's CLEC business unit. "And while our experts manage these time-consuming but critical tasks, WINfirst can focus on expanding its markets and services."

About SCC
SCC Communications Corp. (Nasdaq: SCCX) is the leading provider of 9-1-1 data management services to incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs), integrated communications providers (ICPs) and wireless carriers in the United States. SCC manages the data that allows the routing and delivery of 9-1-1 calls to the appropriate answering point along with accurate information about the caller's location. SCC provides 9-1-1 services to 20 leading wireless telecommunications carriers and 38 leading wireline telecommunications carriers. SCC currently manages the records for approximately 99.4 million wireline and wireless telephone subscribers, including 4.8 million CLEC subscribers, and more than 2.5 million revenue-generating wireless subscribers. The company also develops innovative, value-added information technology systems and software products for the location-based services market. To receive SCC press releases and company updates via e-mail, please register at the company's Web site: http:/www.scc911.com.

About WINfirst
WINfirst is building a new fiber-to-the-home residential network using fiber-optic technology in conjunction with Ethernet networking standards to break the last-mile bottleneck. WINfirst will provide the highest quality of customer service and choice, the convenience of one-stop shopping for Internet, cable TV and telephone service and the value of a bundled-service offering. For more information about WINfirst, visit http://www.winfirst.com.